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SUBJECT: NAMIBIA'S INFRASTRUCTURE: USITC RESPONSE

REF: STATE 85109

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Summary
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¶1. (U) This cable is in response to reftel request from the U.S. International Trade Commission for information on infrastructure conditions that effect export competitiveness.

¶2. (SBU) Compared to other Sub-Saharan African countries, Namibia has fairly well developed and maintained infrastructure. The Namibian government (GRN) is trying to capitalize on the port of Walvis Bay's strategic location to make it a major transshipment point for its regional neighbors. Many European and American products can reach Southern African Development Community (SADC) region countries faster and more efficiently via Walvis Bay. The GRN is investing in the port's expansion so Walvis Bay can live up to that potential. Namibia's road infrastructure is generally good and can support current traffic) much of which emanates from Walvis Bay - but roads and rail will increasingly become a bottleneck if improvements are not made. Namibia's energy sector faces a 200 mW shortfall during periods of peak demand, but NAMPOWER, the energy producer, has a reasonable mid- to long-term strategy to meet demand increases. Nevertheless, in the short-term (2009 and possibly 2010) seasonal power cuts remain a possibility. The telecommunications sector could benefit from a more modern legal framework that promotes more competition, but the infrastructure is relatively new. The aviation sector is Namibia's Achilles heel. The International Civil Aviation Organization (ICAO) rates Namibia as one of the un-safest countries to fly in. With tourism increasingly a critical part of the economy, the GRN finally appears to realize it has to address the weakness in the aviation sector. End Summary

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Maritime / Port Conditions
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¶3. (SBU) Namibia has two ports, Luderitz and Walvis Bay. NAMPORT, Namibia's fully government-owned port authority, operates both. Walvis Bay, which was returned to Namibia in 1994 from South Africa, is larger and can service container and bulk cargo ships of up to 240 meters long with berths up to 12.8 meters deep. The GRN and NAMPORT have a five year plan to upgrade the Walvis Bay facility, to expand its container and bulk storage facilities as well as deepen the bay's channel and port berths. The plan is estimated to cost N\$1.5 billion (USD 200 million). Walvis Bay currently processes about 150,000 containers annually, but is expanding its facilities to accommodate 500,000. NAMPORT has recently upgraded its ship refurbishment facilities, and it is now equipped to refurbish oil rigs. Emboff was in Walvis Bay September 19 and saw an Angolan oil rig being serviced.

Walvis Bay city is planning an ocean front complex and passenger port facility to promote more cruise ship tourism.

¶4. (SBU) To promote Walvis Bay as a major regional hub, the GRN has formed a public-private partnership called the Walvis Bay Corridor Group (WBCG). (Note: The WBCG can provide information on freight forwarders, port service providers, and logistics companies operating in Namibia. End Note). For landlocked countries like Botswana, Zambia, and Zimbabwe, Namibia is promoting Walvis Bay as a faster, more efficient and professional alternative than other regional ports. The WBCG actively markets the port and four overland transport corridors (Trans-Kalahari, Trans-Caprivi, Trans-Oranje, and Trans-Cunene) that link Walvis Bay to Angola, Botswana, South Africa, Zambia, Zimbabwe and the DRC's Lumbumbashi via Zambia.

¶5. (SBU) According to the head of port operations Mussa Mandia, Walvis Bay can offload most container ships in one to two days, while the port of Luanda in Angola may have a backlog of three weeks. For ships with European and American cargo, Walvis Bay offers a port facility that is approximately one week's sailing time closer than South Africa's east coast port of Durban. According to the WBCG, this week may be significant for companies in Johannesburg that want time-sensitive cargo and are willing to pay a premium. Overland travel time from Walvis Bay to Johannesburg is two days. The GRN is working closely with its Southern Africa Customs Union (SACU) and SADC partners to reduce customs clearance times. For instance, the WBCG boasts a 30 minute customs clearance time for transiting the Namibia-Botswana border on the Trans-Kalahari highway. Walvis Bay's ambitious plans to become a regional

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transshipment hub will falter if overland (road and rail) capabilities do not match up with the port's projected expansion. Until Walvis Bay completes its expansion, it will still not be able to handle larger container and bulk ships which prevent it from drawing in traffic that currently goes to South Africa's deeper and larger port facilities.

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Current Road Conditions
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¶6. (SBU) The Namibian road infrastructure and road maintenance is generally good as compared to other Sub-Saharan countries. Namibia's government-owned Roads Authority reported that as of March 2007 the national road network measured a total of 42,260 kilometers, comprising the following:

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|----------|--------------------------|
| Surfaced | 5,821 km |
| Gravel | 24,262 km |
| Earth | 11,967 km |
| Salt | 209 km (along the coast) |

¶7. (SBU) The main roads from Windhoek to principal towns are paved, as are roads linking Windhoek to South Africa, Angola, Botswana, Zambia and Zimbabwe. Paved roads outside cities and towns are generally narrower than in the United States. Some paved roads were constructed in the 1960s and today require rehabilitation as the effectiveness of routine maintenance has been exhausted. Several stretches of the paved road network are under rehabilitation, including a segment from Okahandja to Karibi (on the Walvis Bay to Windhoek route). Stretches under rehabilitation result in a slower traffic. The first phase of the largest new road construction project since Namibia's independence) the Rundu to Elundu road - is scheduled to begin in December 2008.

¶8. (SBU) Gravel roads are generally well graded and maintained but can become rough or corrugated, especially during the rainy season. The coast has a short network of "salt" roads) a foundation of gypsum, which is soaked with

brine and compacted to form a surface as hard and smooth as tarmac. Salt roads can become very slippery when moistened by the frequent fog.

¶9. (SBU) Fuel taxes fund road maintenance and road rehabilitation, but do not cover all the related costs. Government and donor funding makes up the difference, and also pays for new road construction. By law, truck drivers are supposed to pay additional charges based on the weight of their vehicles to defray the additional damages trucks inflict on roads. GRN insiders admit that many truck drivers do not fully comply and enforcement to date has been difficult.

¶10. (SBU) There are no toll roads in Namibia. To date, the GRN has deemed toll roads would at best break even and not generate enough additional revenue to make implementation of such a system economically viable. That said, Roads Authority CEO Erastus Ikela told emboff that the government recently conducted a new feasibility study on the viability of toll roads. The study will be presented to Parliament in the coming months.

¶11. (SBU) As Namibia's Walvis Bay port facility increases its capacity, the road and rail infrastructure could become a bottleneck, although today's infrastructure is sufficient for current levels of economic activity. According to the WBCG's Business Development Executive, Johnny Smith, 40 percent of trucks returning to South Africa's Gauteng province (Namibia's largest trading partner) are empty. Therefore, there is currently room for existing road haulers to absorb greater cargo coming into the port of Walvis Bay destined for other SADC countries without a major increase in road traffic.

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Rail Network
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¶12. (SBU) Namibia has a 2382 km-long narrow gauge rail network. The network connects the port of Walvis Bay to the capital Windhoek and on to South Africa. The government-owned TransNamib rail company operates the trains, while the GRN itself is responsible for rail maintenance and construction. Construction of new track in the north to connect the Namibian city of Tsumeb to Oshikango on the Angolan border is ongoing. The first section, from Tsumeb to Oshivelo, opened in 2005. The Ministry of Trade and Industry

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states that GRN is financing just under a third of the project, while the African Development Bank (ADB) and other sources are funding the difference.

¶13. (SBU) According to TransNamib insiders and other sources the older portions of the network are deteriorating. TransNamib Acting CEO Mike Kavekatora lamented to emboff that the government has a 40-year plan for upgrading the rail network. Forty years, Kavekatora declared, is not suitable for TransNamib's business plans. Kavekatora remarked that there are some stretches of track linking the north to Walvis Bay that are so run down that they may not last more than two more years. Transport over older (poorly maintained) tracks dramatically reduces shipping times as trains cannot travel as quickly over such tracks. Paul Smit, the Deputy Minister for Transport and Works, told the DCM that the GRN is planning to expand the rail sector by rehabilitating the current system, extending a rail line from Gobabis to Gaborone, Botswana and extending another rail line from Grootfontein to Livingstone, Zambia. The Gobabis to Gaborone line would extend TransNamib's reach from Walvis Bay into Botswana.

¶14. (SBU) While TransNamib is a multi-modal (road and rail) transport company, the bulk of its business is rail. Kavekatora told emboff that TransNamib offers highly competitive (cheaper) prices for transport of heavy

equipment/products to the mining sector, which is a major customer. While TransNamib is 100 percent government owned, Kavekatora noted that there are foreign investors (German, South African, some U.S. and others) that have expressed interest in TransNamib. However, the GRN to date has chosen not to court foreign investment for the expansion/development of TransNamib and the country's rail infrastructure.

¶15. (SBU) A recent rail workers strike at TransNamib highlighted Namibia's dependence on its rail infrastructure. The GRN estimates the strike cost the country N\$180 million (USD 22.5 million) in lost revenue. The strike was primarily an internal squabble within the ruling South West African Peoples Organization (SWAPO) party and not related to working conditions or wages.

¶16. (SBU) Until approximately 2003, TransNamib operated only General Electric (GE) locomotives. Since then it has purchased 21 Chinese locomotives in two tranches, four in 2003 (or 2004) and another 17 in 2006. The Chinese locomotives have been a headache for TransNamib. Replacement parts are taking 8-12 months to reach Namibia, and several Chinese locomotives are currently off-line awaiting parts. This has not been a problem with the GE locomotives according to TransNamib sources. The company still maintains 22 GE locomotives, although many require servicing in South Africa because of their age. According to Kavekatora the refurbishment will extend the GE locomotives "useful life" another 20 years. (Comment: While TransNamib may be suffering from buyer's remorse over its purchase of Chinese locomotives, Kavekatora noted that TransNamib did not have the funds to buy additional GE locomotives at this time. End Comment).

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Electrical Infrastructure
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¶17. (SBU) NAMPOWER is Namibia's government-owned power generator and transmitter. NAMPOWER also provides power distribution in some parts of the country, although it has turned over (or is in the process of turning over) distribution to regional electrical distributors (REDs). NAMPOWER is a minority shareholder in most of the REDs, except for one in which it owns 50.02 percent. NAMPOWER also engages in energy trading with regional power generators. The Electricity Control Board (ECB) serves as Namibia's electricity regulator. Most power generation in Namibia is either thermal or hydro-power. Some hydropower is river-based (not reservoir-fed), which makes the source of electricity generation more seasonal (during the December to February rains). Namibia produces approximately 59 percent of its own power, and imports the remaining 41 percent.

¶18. (SBU) NAMPOWER Managing Director Paulinus Shilamba told emboff that Namibia faces a 200 megawatt (mW) power supply shortage during periods of peak demand. The mining (commodities) sector boom and general population usage increases have contributed to the shortfall. Furthermore, South Africa's Eskom, Namibia's primary external power supplier has drastically reduced power exports to the region because of increases in South African demand. South Africa

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has historically been responsible for 80 percent of power generation in the SADC region.

¶19. (SBU) Due to South Africa's challenges, Namibia is looking for other power generation solutions. According to Shilamba, Namibia is addressing its power supply shortfall in several ways. In the near term Shilamba anticipates that load-shedding may be necessary. Shilamba is most concerned with May to August 2009, the dry season when hydro-power generation diminishes.

¶20. (SBU) To solve Namibia's shortage in the longer term,

NAMPOWER has negotiated (or is in the process of negotiating) new Power Purchase Agreements (PPAs) with regional suppliers.

For example, NAMPOWER has entered into a five year agreement with Zimbabwe's ZESA. As part of the deal Namibia loaned USD \$50 million to help ZESA upgrade its Hwange power plant in western Zimbabwe. Hwange in return is obligated to supply Namibia with up to 150 mW. To date, the Hwange plant is only providing a maximum of 120 mW. To take full advantage of Hwange, NAMPOWER and the GRN have embarked on the construction of a 350 kV DC HVDC Caprivi Link inter-connector. This link will eventually allow NAMPOWER to transmit power across the Caprivi strip and down to the capital Windhoek. Phase one of the project is due to be completed by January 2010.

121. (SBU) Namibia can rely on some standby power generation stations, but this option is costly, inefficient, and poses pollution control issues. Namibia is also instituting demand management program. The GRN and NAMPOWER have given away (nationwide) free compact fluorescent bulbs to encourage more efficient home energy usage. The GRN and NAMPOWER also encourage the use of solar water heaters, and are investigating the wider implementation of remote demand control measures (shutting off power remotely to customers according to negotiated agreements).

122. (SBU) NAMPOWER is also looking to invest in alternative energy solutions (wind and solar). Due to Namibia's climate (well over 300 sunny days a year) solar is quite feasible, but it remains costly for large scale implementation. Solar is more common for rural electrification, where access to the main grid is difficult and energy demands are generally lower. With its significant uranium deposits, the GRN is also considering nuclear power. Alternative energy will not, however, solve Namibia's near-term energy needs.

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Telecommunications
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123. (SBU) Namibia's telecommunications sector is dominated by government-owned Telecom which stills hold a monopoly on fixed-line service. Two other providers MTC and CellOne operate mobile phone and data networks, but rely on Telecom's backbone for interconnection services. Telecom entered the mobile-market in 2006 with a CDMA (not GSM) service. But, the government restricts Telecom from providing roaming services so that Telecom only has coverage in cities. MTC and CellOne provide roaming services throughout the country, which leads customers to prefer them for mobile phone and data. Telecom provides the only gateways linking Namibia to the outside world (a satellite link and a fiber link via South Africa). Telecom is also responsible for providing rural Namibians access to communications via fixed-line service, which its private mobile service competitors are not.

124. (SBU) Namibia's telecommunications sector is regulated by 1992 (pre-Internet) legislation. A new telecommunications act) which could liberalize the sector) remains stalled in Parliament. Nevertheless, the Namibian communications infrastructure is relatively new, with fiber running throughout the country. New services such as WiMax and 3G GSM are emerging and available. The 1992 legislation prohibits services like Voice Over Internet (VOIP), but there is no enforcement at the individual level. Sources in Telecom acknowledge that VOIP is pervasive. The company does not go after individual customers; it only targets businesses that try to provide (resell) VOIP services. The current telecommunications regulator has little authority, although it is expected that it will become more influential if/when the new telecommunications act goes into effect.

125. (SBU) High-speed Internet service (ADSL, and more recently 3G and WiMax) is available in most cities, but costs are high. Internet cafes/shops provide access to less affluent Namibians who do not have access to the Internet at home or at work. Cable companies and NAMPOWER are currently

prohibited from providing high speed Internet services. NAMPOWER has laid fiber optic cable along its main power transmission trunks to provide for monitoring of its electrical network. In theory, NAMPOWER's fiber link could be used to offer Internet services should Parliament allow companies outside the traditional communications sector enter the market.

¶26. (SBU) Due to Namibia's vast size and small population (2.2 million), telecommunications services are relatively expensive. However the demand for services appears strong. MTC recently boasted it had achieved its one millionth subscriber. MTC's claim does not reflect individual subscribers, as many people buy pre-paid services that lapse. According to sources within Telecom, the company has 140,000 fixed-line customers and 30,000 wireless customers. With a dry climate and low probability for large-scale natural disasters, Namibia could serve as good location for data-centering services. As in many other sectors, the country lacks sufficient skilled communications and information technology engineers.

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Aviation Sector
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¶27. (SBU) The aviation sector is Namibia's weakest link. The International Civil Aviation Organization (ICAO) ranks Namibia among some of the worst countries in the world in terms of safety. A spate of recent small aircraft accidents at Windhoek's Eros Airport (which handles domestic traffic) has served to highlight the problem. Aviation safety and security are critical to the viability of foreign tourism which is a major contributor to the Namibian economy.

¶28. (SBU) In the past, the U.S. Department of Transportation (via the FAA) have offered technical assistance Namibia via the Safe Skies Over Africa program, but the GRN showed little political will in addressing the problem. That appears to be changing. The Minister of Transport and Works, Helmut Angula, told Parliament, "The lack of comprehensive and effective aviation primary and secondary legislation consistent with the environment and complexity of civil aviation related activities since independence is compromising Namibia's membership to ICAO."

¶29. (SBU) Labor issues and skills are part of the problem, including insufficient numbers of trained safety inspectors. Human error seems to have caused a number of the recent accidents. A plastic bag left in the engine compartment of Cessna was the likely cause of a September crash that killed one and injured four Swiss tourists. A pilots strike at Air Namibia (the government-owned carrier) was recently averted, after the company agreed to increase salaries by 12 percent. Air Namibia loses money, but the GRN has been willing to fund its short-fall because of the airlines' contribution to the tourism sector.

HARRINGTON